

Message Text

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TAGS: ECIN, DA

SUBJECT: DANISH ECONOMY

SUMMARY: THIS CABLE OFFERS A SNAPSHOT VIEW OF THE DANISH ECONOMY OVER THE PAST HALF YEAR AND PINPOINTS ECONOMIC FACTORS THAT WILL SHAPE DEVELOPMENTS DURING THE COMING MONTHS. THIS ANALYSIS WAS MADE IN CONNECTION WITH THE EMBASSY'S SEMI-ANNUAL ECONOMIC TRENDS REPORT, SUBMITTED SEPARATELY. END SUMMARY

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1. UPSWING FROM RECESSION - THE ECONOMY BEGAN TO MOVE

OUT OF RECESSION DURING THE LAST QUARTER OF 1975, AND GROWTH FOR 1976 IS CURRENTLY FORECAST AT AROUND 5 PERCENT. THAT COMPARES WITH A 2 PERCENT DECLINE LAST YEAR. EXPANSION THUS FAR HAS BEEN ALMOST ENTIRELY BASED UPON AN INCREASE IN DOMESTIC DEMAND, ESPECIALLY IN THE PRIVATE HOUSEHOLD AND HOUSING CONTRCTION SECTORS.

2. NEGATIVE FEATURES OF RECOVERY - BECAUSE OF PRO-DUCTIVITY GAINS AND THE EXISTENCE OF UNUTILIZED CAPACITY, THE RECOVERY HAS NOT REDUCED A 5 PERCENT UNEMPLOYMENT RATE IN THE LABOR FORCE. THAT SITUATION IS NOT LIKELY TO CHANGE MUCH DURINGTHE REMAINDER OF THE YEAR. ANOTHER NEGATIVE FEATURE WAS THE RAPID DETERIORATION OF THE TRADE AND PAYMENTS BALANCES. THE STEEP RISE IN CONSUMER SPENDING LED TO LARGE IMPORTS DURING THE LAY QUARTER OF 1975 AND THE FIRST HALF OF 1976 WHILE EXPORTS ROSE ONLY marginally. ALTHOUGH DEMAND AND IMPORTS ARE EXPECTED TO LEVEL OFF DURING THE YEAR, THE CURRENT PAYMENTS DEFIDIT FOR 1976 COULD REACH \$1,700 MILLION. DENMARK, A COUNTRY DEPENDENT ON TRADE, ONCE MORE FACES THE DOUBLE PROBLEM OF COPING WITH RSING COSTS OF IMPORTED RAW MATEIALS AND SEMIMANUFACTURES AND OF KEEPING ITS DOMESTIC COSTS DOWN. IF DANISH EXPORTS ARE NOT KEPT COMPETITIVE AND DOMESTIC DEMAND FOR IMPORTS GOES ON UNCHECKED, THE COUNTRY WILL EXPERIENCE INCREASING DIFFICULTIES IN FINANCING ITS DEFICITS. CURRENT INDICATIONS ON BOTH COUNTS, HOWEVER, ARE FAVORABLE. EXTERNAL ORDERS FOR DANISH GOODS AND SERVICES ARE PICKING UP AND DOMESTIC DEMAND IS SUBSIDING WHEN COMPARED TO THE EARLY MONTHS OF 1976.

3. INVENTORY AND INVESTMENT EXPANSION - THE INVENTORY DECUMULATION THAT CHARACTERIZED 1975 TURNED AROUND IN 1976. STOCK REPLENISHMENT IS UNDERWAY AND IS LIKELY TO CONTCUE AT A MODERATE PACE THROUGHOUT THE YEAR, ACCOUNTING FOR ABOUT HALF OF AN ANTICIPATED 30 PERCENT INCREASE IN 1976 INVESTMENT. 1976 WILL ALSO SEE A MODEST INCREASE IN CONSTRUCTION, LARGELY UNCLASSIFIED

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DUE TO THE RECOVERY OF THE HOUSING CONSTRUCTION SECTOR. WHILE THERE WILL BE LITTLE OR NO NEW PUBLIC INVESTMENT IN 1976, THE PRIVATE SECHOR IS EXPECTED TO INCREASE BUSINESS INVESTMENT BY XME 15 PERCENT, MOSTLY IN THE FORM OF NEW EQUIPMENT.

4. STRONGER PERFORMANCE OF CONSUMER GOODS - EXPORT ORDERS AND DOMESTIC DEMAND FOR DANISH CONSUMER GOODS

ARE BOTH STRONG. THERE IS WEAKNESS, HOWEVER IN THE CAPITAL GOODS SECTOR. ORDERS FROM ABROAD ARE ON THE RISE, BUT DOMESTIC ORDERS LAG AS MANUFACTURERS CAUTIOUSLY EYE THE MARKET BEFORE MAKING NEW CAPITAL INVESTMENTS.

5. FISCAL DIFFICULTIES - BECAUSE OF RECESSION, BUDGET OUTLAYS HAVE INCREASED (E.G., UNEMPLOYMENT INSURANCE) WHILE REVENUES (E.G., LOWER TAXES) HAVE NOT RISEN CORRESPONDINGLY. THE GOVERNMENT IS TRYING TO COVER THE EXPECTED FY 1977 (APRIL 1976- MARCH 1977) OF \$2.5 BILLION WITH SALES OF SHORT AND MEDIUM TERM BONDS. IT REMAINS QUESTIONABLE, HOWEVER, WHETHER THE GOVERNMENT CAN DO SO WITHOUT INCREASING MONEY-MARKET INTEREST RATES THAT WOULD BE HARMFUL TO INVESTMENT AND CONSTRUCTION.

6. MONETARY DIFFICULTIES - DURING THE FIRST QUARTER OF 1976 THE DANISH KRONE WAS UNDER CONSIDERABLE PRESSURE. WHILE THE GOVERNMENT AND THE CENTRAL BANK WERE BORROWING TO MAINTAIN RESERVES, THE PRIVATE SECTOR WAS WEAKENING THEM BY PAYING OFF FOREIGN DEBTS. THE KRONE WAS ALSO AFFECTED BY THE INTERNATIONAL MONETARY CRISIS IN MARCH, WHEN A TEMPORARY \$600 MILLION CREDIT FROM WEST GERMANY WAS NEEDED TO PROTECT DANISH RESERVES. SINCE THAT TIME, HOWEVER, THE KRONE HAS BEEN STABLE. IT WILL NEVERTHELESS REMAIN SENSITIVE TO INTERNATIONAL DEVELOPMENTS.

7. INFLATION DOWN - A BRIGHT SPOT IN THE ECONOMY HAS BEEN THE REDUCTION OF INFLATION TO LEVELS BELOW THAT OF MOST EUROPEAN COUNTRIES. WHETHER THE REDUCTION HAS BEEN SUFFICIENT FOR DENMARK TO GAIN ITS UNCLASSIFIED

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FORMER COMPETITIVE POSITION IN EXPORTS IS DEBATABLE. IT IS CLEAR, HOWEVER, THAT DENMARK CANNOT AFFORD POLICIES (E.G., SUBSTANTIAL WAGE INCREASES) THAT WOULD RAISE ITS COSTS IN COMPARISON WITH ITS TRADE COMPETITORS.

8. IMPLICATION FOR THE U.S. - INCREASED DANISH IMPORTS IN 1976 DID NOT IMMEDIATELY BENEFIT AMERICAN EXPORTS BECAUSE PURCHASERS CONCENTRATED ON AUTOMOBILES, DURABLES, AND OTHER CONSUMER GOODS NOT USUALLY OBTAINED FROM THE UNITED STATES. AMERICAN GOODS, HOWEVER, REGISTERED GAINS IN THE TRADITIONAL AGRICULTURAL AND INDUSTRIAL MARKETS AND THE IMPROVEMENT IN THE INVESTMENT CLIMATE NOTED ABOVE OFFERS FAVORABLE PROSPECTS.
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